Winning in the age of hyper-competition

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By **Dr. M Muneer** (With inputs from Rita McGrath)

The biggest disruption enterprises face today is not technology or political uncertainty but the demolition of two fundamental assumptions of strategy, which are gospel to practitioners of strategy. According to Rita McGrath, one of the leading minds in the field of strategy and innovation, the first assumption is that industry matters most.

In B-Schools and elsewhere, we were taught that industries comprise of relatively stable competitive forces. If you take the time and effort to analyze the forces, you will be able to create a road-map for your business, which may last for some time. Since industries were considered to be mostly stable, one might believe in getting a reasonable return on investment by analyzing industry trends and planning the strategy accordingly. Five-year plans were very normal decades ago but today, we find the time span is getting much shorter, and in many companies, annual updates on strategy is the norm.

That brings us to the second assumption that is getting derailed. This is the holy grail of strategy: *sustainable competitive advantage*. Having derived a competitive position within an industry, organizations tended to promote employees who were good at running big businesses, driving operational excellence, improving supply chains and so on, keeping the advantage intact. Management structures that directed resources and talent to strategic business units were associated with high performance. The core assumption here was that you could optimize your systems and processes around a set of sustainable advantages.

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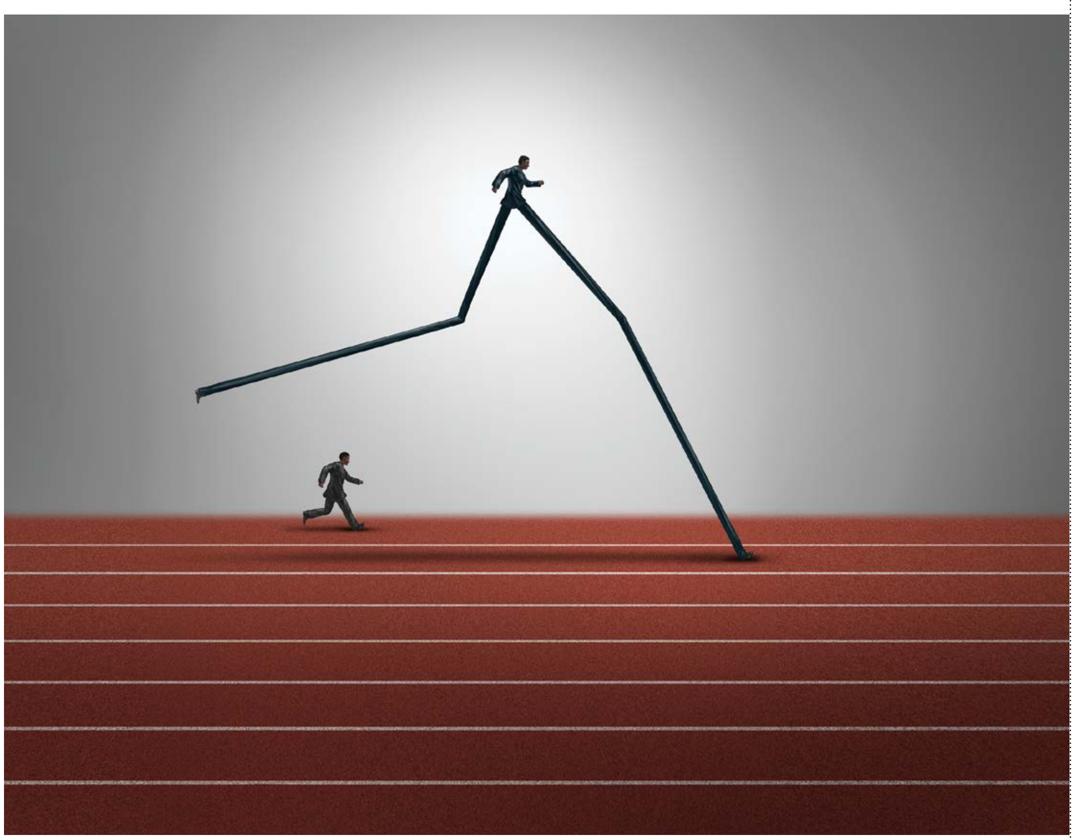

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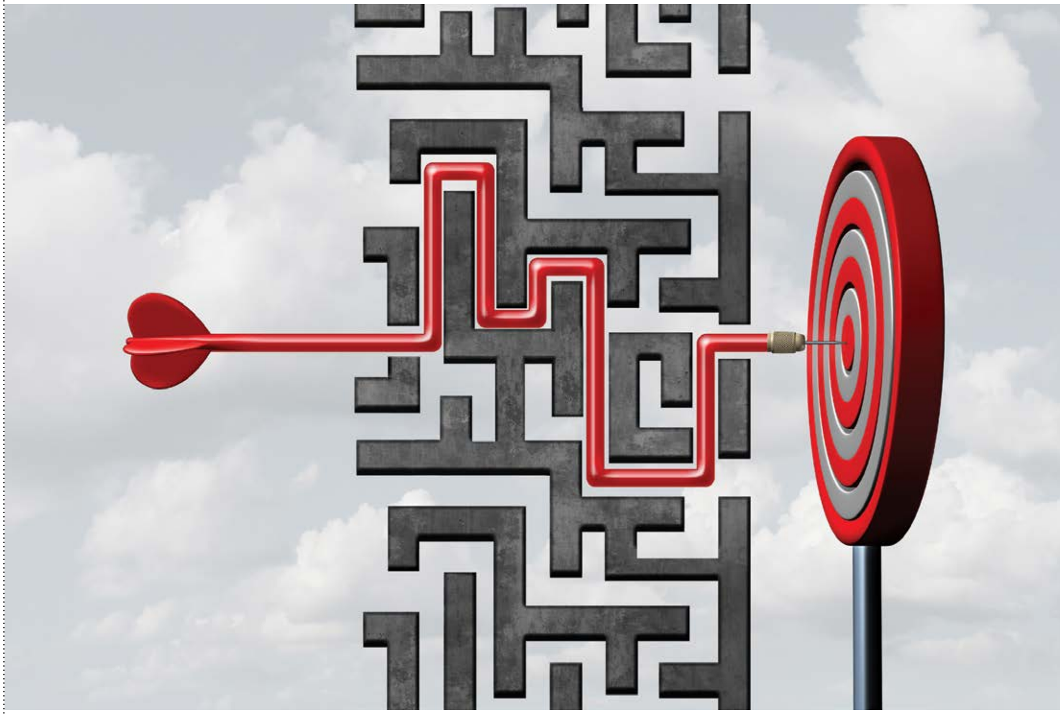

However, in more and more sectors, and for more businesses, this is not what the world looks like anymore. Examples galore: Music, technology, travel, hospitality, movies, communication, consumer electronics, the automobile business, healthcare and even education are facing situations in which advantages are copied quickly, technology changes or customers seek other alternatives and things move on. In any field today, even when a high technology product is launched, the advantage will not last for more than 6-9 months.

The bias that was inherent towards the assumption of stability had been fatal to many enterprises and industries from Blackberry, Nokia and Kodak to banking and music. Stability, not change, is the state that is most dangerous in today's hyper-competitive era.

The presumption of stability leads to all the wrong reflexes. It encourages inertia and power to build up along the lines of an existing business model. Remember what happened in the telecom business in India? Existing players knew about the imminent launch of Jio at least two years before and yet none of them thought of a disruptive business model by the new entrant. They assumed that there would be price war and were bracing up for that. What Jio did was disrupting the unit of business from mobile calls to data, which till then was unheard of and that ignited the imagination of the consumers while destabilising the business models of incumbents.

Stability allows people to fall into routines and habits of mind. It creates the conditions for turf wars and organizational rigidity. It inhibits innovation. It tends to foster the 'denial' reaction rather than proactive design of a strategic next step. And yet, "change management" is seen as an other-than-normal activity, requiring special attention, training and resources. A web search on the very term "change management" turned up 21,600,000 results – that's twenty-one million citations!

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A long track record of relatively stable success caused the ambition to hungrily search for new opportunities to atrophy. Once gone, it's hard to regain quickly in the face of fast competitive onslaughts.

Welcome to the era of transient advantages

Competition today does not come from within the same industry. Yet, enterprises define their most important competitors as other companies within the same industry, meaning those firms offering products that are a close substitute for one another. In more and more markets, industries are competing with other industries, business models are competing with business models even in the same industry, and entirely new categories are emerging out of nowhere. Look at the banking industry, for instance. The competitors to a bank are not just the other banks but also Apple Pay, Google Wallet, Paytm, Alibaba, and even the post offices. Industries are still relevant but using industry as a basis to analyze competitive forces is not relevant anymore. A new level of analysis that reflects the connection between market segment, offerings and geographic location at a granular level is needed. According to Rita, what one should look at is "arenas", that are characterized by particular connections between customers and solutions, not by the conventional description as offerings that are near substitutes for one another.

There is a big difference between thinking about strategy in terms of arenas as opposed to industry. In industry analysis, the goal is often to determine one's relative position with respect to other players in the same industry. It's good to have a large market share. And competitive threats are of the traditional kind – moves around product introductions, pricing, promotions and so on.

In the arena, enterprises need to monitor for changing trends constantly, different ways to meet a customer need, how the interplay of technology and other industries play on business models, and so on. In essence, management must constantly be asking what jobs of customers they can do next. While the sustainable competitive advantage is in jeopardy, there are many opportunities that offer shorter competitive advantages. Spotting these advantages quickly, scaling up r rapidly, exploiting that advantage and eventually disengaging from that business and moving resources to other opportunities are the skills for competing effectively in the transient advantage era.

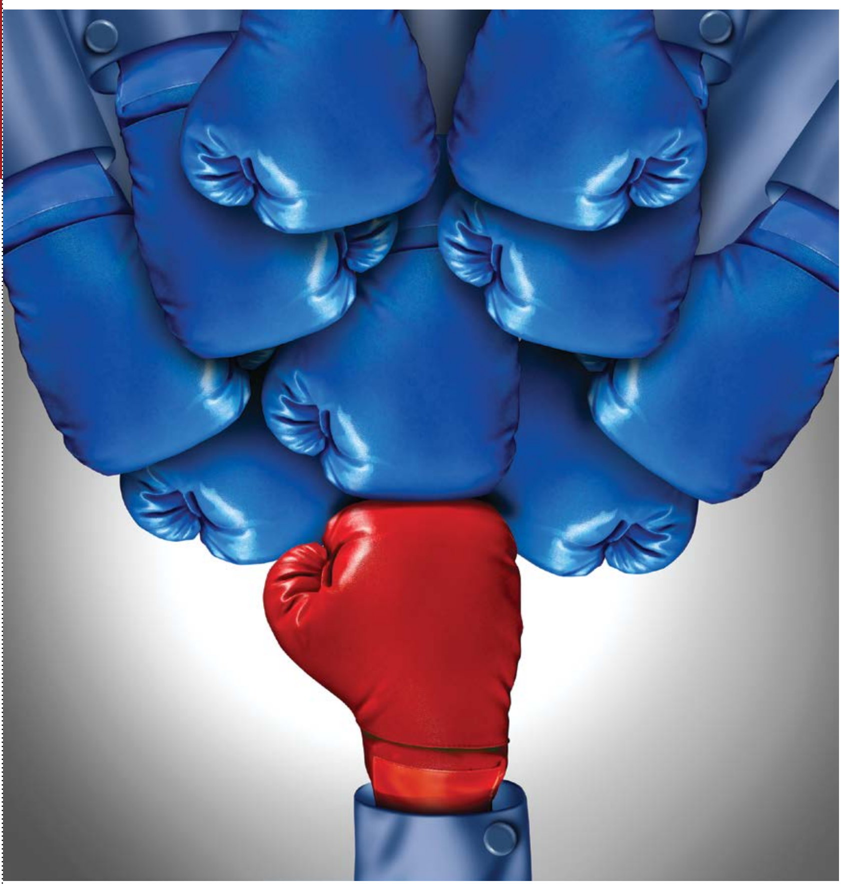
With temporary advantages that won't last long as before, the existing business model will always come under pressure, necessitating the need for reconfiguration and renewal of the advantage.

The reconfiguration process is central to winning in transient advantage situations, as it is through reconfiguration that assets, people, and capabilities make the transition from one advantage to another. During reconfiguration, teams that might have been engaged to ramp up or exploit an advantage are shifted to some other set of activities; assets are changed or redeployed, and people move from one assignment to the next. Rather than viewing this change as negative, they are taken for granted as necessary and useful in a transient advantage world.

The most difficult situation for any enterprise is to disengage from an existing business even when all the telltale signs of its demise are visible. Through a disengagement process, a firm disposes of the assets and other capabilities that are no longer relevant to its future, either by selling them, shutting them down or repurposing them. The objective is to manage this process gracefully and quickly. Long drawn-out disengagements do little more than consuming resources while not making the end result any more pleasant. In a transient advantage context, disengaging is not confused with business failure. Indeed, disengagement can and should take place when a business is still viable, rather than when a desperate organization has no other choice as was in the case of Nokia, for instance.

Winning in the transient advantage era that we are in today requires six major changes in strategic thinking.

Organizations should continually reconfigure their businesses, think about healthy disengagement before it becomes painfully embarrassing, develop the ability to skillfully reallocate resources, make innovation a way of life within the organization, develop new leadership mindsets and enable individuals to manage their own career progress for the transient advantage era.



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Leadership mindset needs change

Winning in the new era had implications for the mindset leaders bring to their businesses. They will need to take decisions faster – not like the telecom incumbents – and in 'roughly right' mode rather than in more precise, but slower pace. Prediction and being 'right' will be less important than reacting quickly and taking corrective action. And unlike most corporate decision-making processes today in which people seek out information that suggests they are correct; in a world of transient advantage the most valuable information is often disconfirming – it helps highlight where the greatest risks in being wrong are.

Irrespective of the size of the company, without quick and roughly right information flowing freely from bottom-up, leadership will not be able to drive the different aspect of the transient advantage economy. The water cooler moments have always been about rumors at the top (bad news travel fast downwards) but the bad news from the market doesn't travel fast upwards. Changing that needs a holistic approach.

The proverbial "knowledge is power" and "sharing is caring" may not always go together just as greed and charity. The task for CHRO and team to break this standoff is beyond technology which is why this cannot be a CIO project.

List of changes leaders should make to succeed

FROM	TO
Assumption that existing advantages will persist	Assumption that existing advantages will come under pressure
Conversations that reinforce existing perspectives	Conversations that candidly question the status quo
Relatively few and homogenous people involved in strategy process	Broader constituencies involved in strategy process with diverse inputs
Precise but slow	Fast and roughly right
Prediction oriented	Discovery driven
NPV oriented	Options oriented
Seeking confirmation	Seeking disconfirmation
Talent directed to solving problems	Talent directed to identifying and seizing opportunities
Extending a trajectory	Promoting continual shifts
Accepting a failing trajectory	Picking oneself up fast

It is imperative that a culture of facilitating and sharing knowledge is nurtured and information sharing is enabled across the board

All the listed changes above need one major support, and that is solely dependent on HR to take a lead on: Timely inputs and knowledge to enable quick decision-making at all levels. The CHRO will have to work closely with the CIO in quickly designing a knowledge management and sharing platform that is user-friendly and transparent for disconfirmation bias.

Some competitive advantages such as deep customer relationships, making highly complicated machines like airplanes, running a mine with autonomous robots, and a great knowledge sharing culture are sustainable for longer periods of time. I propose a solution to enable HR to drive competitive advantage for the organization indirectly and help ride the transient advantage waves.

Creating a knowledge-sharing culture

Sharing of knowledge requires a repository of knowledge that is inherent in employees and stakeholders, and facilitating the sharing. Capturing the inherent knowledge from scratch is a mega task and without motivating the aging workforce it will be almost impossible to capture the content. The millennials have less serious issues for sharing.

Why is knowledge sharing so necessary to compete successfully in the current world? According to a study by Singapore Management University, culture creates a bigger roadblock than technology to employees using digital platforms. Therefore, it is imperative that a culture of facilitating and sharing knowledge is nurtured and information sharing is enabled across the board.

While striving to build a knowledge sharing culture, keep in mind the following:

- Encourage transparency in communication
- Build a knowledge repository
- Decide on the tech platform based on the requirements the organization has and the information sharing needs.
- Engage with two-way communications
- Imbibe storytelling techniques
- Have an open door policy

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